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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* OF INTERNATIONAL IMAGING TECHNOLOGY COUNCIL AND REMANUFACTURING INDUSTRIES COUNCIL IN SUPPORT OF RESPONDENT

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INTEREST OF THE *AMICI*[1]

Printer cartridges are remanufactured when worn or exhausted parts are restored or replaced; and the final product performs like the original one. International Imaging Technology Council represents the 5,000 companies in the industry that make their living remanufacturing imaging supplies. Toner and ink jet cartridge remanufacturing grew as a trade and now represents a $4.5 billion industry. A survey of remanufacturing companies found that there are over 73,000 independent remanufacturing companies in the U.S. These companies employ nearly 500,000 people and have annual sales of over $53 billion per year. This case is vital to the interests of that industry, as its outcome will determine whether the industry will continue to thrive or will be decimated.

International Imaging Technology Council represents those businesses as a § 501(c)(6) trade organization with members around the world. International Imaging Technology Council seeks to promote the benefits of using remanufactured cartridges and defends these small businesses from unfair trade practices often employed by large corporations to eliminate aftermarket competitors.

The Remanufacturing Industries Council (RIC) is a coalition of individual companies, trade associations, government and academic organizations working to promote, protect and advance the entire remanufacturing industry.

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1. I hereby certify that this brief has been financed entirely by the International Imaging Technology Council and has been written solely by its executive director, in compliance with Rule 37.6. The parties have consented to the filing of this brief and their letters of consent are being lodged herewith.

International Imaging Technology Council seeks to promote the benefits of using remanufactured cartridges and to defend these small businesses from unfair trade practices often employed by large corporations who tried to stop aftermarket competitors.

If the Court decides to alter existing patent or antitrust laws, the printer original equipment manufacturers (OEMs), including but not limited to Hewlett-Packard, Canon, Lexmark International and Epson, could thwart all aftermarket competition. This could lead to the end of all aftermarket cartridge remanufacturing, and the end to any inexpensive alternatives for high-priced imaging supplies for consumers. The reach of such a decision could also extend into other aftermarkets, such as those for automotive parts.

ARGUMENT

I. Presumption of Market Power in Patented Tying Products is Consistent with the Experience of the Cartridge Remanufacturing Industry

The right to repair an item with a remaining useful life is well settled, *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961). That right has been extended to printer cartridges in cases like *Hewlett-Packard Co. v. Repeat-O-Type Stencil*, 123 F. 3d 1445 (Fed. Cir. 1997).

Trident sells its patented printheads and unpatented ink for use with its print heads for use in industrial carton code printers. As a condition of sale, it requires that the buyer agree to purchase all the ink for use with the print head. This is a classic requirements tie, and if allowed by the Court, will certainly set a blueprint that will have dire repercussions

for users of printers of many types. The printer OEMs will almost certainly begin tying supplies to printers, leaving the aftermarket suppliers in the no-win situation of being forced out of business or bringing a lawsuit against the printer OEMs, which have far more resources to defend such an action.

The market power in Trident's patented print head is apparent from high prices it charges for required ink supplies. In the face of these high prices, if users of Trident's printer heads could switch to another type of printer, they would do so. However, because Trident's printer technology is patented, no alternative is available. Instead, customers continue using Trident's technology but look to the aftermarket ink suppliers to provide quality product with a competitive price for the unpatented supplies.

The computer printer marketplace is comprised of approximately a dozen large companies that produce ink- or toner-based printing products. Every printer OEM holds thousands of patents.

For computer printer manufacturers, the market power they possess is demonstrated by the extraordinary lengths they will go to prevent competition for supra-competitively priced aftermarket ink cartridges. These companies employ various devious methods to try to coerce the customer into buying only their imaging supplies. For example, Hewlett Packard changed the design of ink jet cartridges from top fill to bottom fill in order to thwart aftermarket competition (*See Hewlett-Packard v. Nu-Kote International*, 1998 U.S. App. Lexis 12744 (Fed. Cir. 1998).

Lexmark International, a multi-billion dollar company, uses a shrink wrap licensing agreement and chip technology to control its supplies channel and confuse customers. It first announced its *Pre*bate cartridge program for Optra S printers in 1997. Consumers were purportedly offered an up-front discount of $30 or more if they agreed not to reuse, recycle or remanufacture the cartridge, and to either return it to Lexmark or throw it away. The offer came using a shrink-wrap licensing restriction that the customer ostensibly agrees to buy the cartridge at the discounted price. Lexmark also sent out letters to all remanufacturers saying that it would sue any company that violated these restrictions by remanufacturing a *Pre*bate cartridge.

It claimed that this "marketing program" was not anti-competitive because "remanufacturable" cartridges were readily available for purchase at the higher price. However, remanufacturable cartridges started to quickly disappear as a choice for customers as retailers chose not to carry the higher-priced model.

Lexmark added chip technology to its printers in late 1997 to enforce the "*Pre*bate" restrictions. Some chips used to monitor supply usage in Lexmark T series printers actually shuts off the printer when it detects that a remanufactured printer cartridge is in use. Dubbed the "killer chip," it also displays the error message, "invalid refill," on the printer to further confuse the customer into believing that he did something wrong by buying a remanufactured cartridge.

A leading aftermarket industry vendor, Static Control Components, responded by inventing a replacement chip that worked in "*Pre*bate" cartridges. Lexmark sued Static Control Components, claiming that its replacement chip violated

U.S. Copyright laws and the Digital Millennium Copyright Act (*Lexmark International v. Static Control Components, Inc., et al.*, United States District Court, Eastern District of Kentucky, Civil Action No. 02-571-KSF). After the District Court granted a preliminary injunction in Lexmark's favor to halt the sale of the aftermarket chips, Static Control appealed to the Sixth Circuit Court. That Court reversed the injunction and found that Lexmark's use of the DMCA was inappropriate. In a concurring opinion, the court questioned Lexmark's tactics and found them to be monopolistic. *Lexmark International, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004).

Lexmark responded by filing more legal actions against remanufacturers using Static Control Components' and others' chip technology. These lawsuits are a tremendous burden to the participants, who are much smaller companies than Lexmark International. However, Lexmark appears determined to drive out all competition and secure total control of its lucrative supplies market.

These and other printer OEMs have gone to great lengths and great expense to attempt to tie the sales of their supplies to the sale of their printers. If the presumption that a patent holder has monopoly power is abrogated, these companies will undoubtedly begin overtly tying their supplies to printer sales.

The presumption is vital to protecting remanufacturers' rights to compete in this industry. Without the presumption, litigation against the much larger OEMs would become extremely expensive, well beyond the resources available to the vast majority of our industry members.

The vast majority of our members has fewer than five employees and has less than $1 million in sales. The consumer printer OEMs all have annual sales figures in the billions. This disparity also exists in the current case, as Illinois Tool Works is an $11 billion company, where Independent Ink does only about $5 million in business each year. In that separate market for industrial carton coding printers, Illinois Tool Works is the dominant player.

II. Remanufactured Cartridges Foster Competition by Reducing Prices and Eliminating Wasteful Use of Resources

Remanufactured cartridges are also good for consumers. As the only alternative to new cartridges, remanufactured printer cartridges keep manufacturers from holding a monopoly on the supplies for their printers. Without an aftermarket with which to compete, the OEMs will own a monopoly on the printer supplies marketplace and the prices of printer cartridges would soar. Protecting consumers against supra-competitive prices is the number one goal of antitrust laws.

Cartridge remanufacturers are service-driven, locally-based small businesses and therefore are good for the economy. Cartridge remanufacturing is a technical craft that is not easily automated and is labor intensive, so these companies employ more workers, pay more taxes and create more economic multiplier effects than out-of-state or other-country corporations. Many empty cartridge collection programs work with charities so that empties are delivered to remanufacturers in exchange for money that goes to buy community-supporting products, such as band uniforms, sports equipment for Boys & Girls Clubs and other goods and services for the community.

Remanufacturing promotes competition and is good for the environment. The industry reuses existing plastic and metals, diverting them from the waste stream. Remanufacturing is the highest form of recycling, as it affords reuse. Toner cartridges are comprised of industrial grade, thermo-set plastic that will only begin to degrade in a thousand years. As an environmental strategy, the benefits of remanufacturing exceed the benefits of recycling a product. While recycling reclaims the original materials used to create a component, remanufacturing also reclaims the *form* of the component. Thus the environmental and economic costs incurred in making that component are avoided. The pollution caused by raw material extraction and the pollution associated with converting those materials to their final form are avoided. The energy use, material waste, and labor associated with creating a new product are prevented. Remanufacturing helps reduce the amount of solid waste entering the landfill systems, preventing pollution and reducing the environmental and economic burdens of end-of-life products. By designing their products for remanufacture, manufacturers act to take on the environmental stewardship of their products.

These resources are being wasted by throwing away cartridges that could easily be reused several times. The manipulation of the cartridge marketplace by the OEMs fosters this inefficient use of resources.

Printer OEMs have adopted a razor-and-blade approach in marketing printers and printer supplies. They sell printers for low or no margins in order to sell the far more lucrative supplies. According to *BusinessWeek* magazine, Hewlett Packard's gross margins on imaging supplies are over 50 percent. And Hewlett-Packard's imaging supplies division contributed 125 percent to Hewlett-Packard's total net income.

Industry experts believe that approximately 100,000,000 printer cartridges are sold every year. And aftermarket cartridge dealers remanufacture up to 30 percent of those that are sold in North America. Those cartridges that are thrown away are destined for landfills, despite a potentially long, useful life. Some OEMs, such as Xerox, offer remanufactured cartridges, but all of them prefer to sell new cartridges for the reasons stated heretofore.

CONCLUSION

The current state of the law permits the cartridge remanufacturing industry to continue to compete and provide price relief to consumers. Remanufacturing is a noble profession with a long and recognized legal history grounded in the intellectual property doctrine of permissible repair. If Trident is permitted to condition its hardware sales by obliging the purchaser to buy its ink, manufacturers in the printer market will certainly and swiftly do the same thing. The loss of the presumption of market power could greatly increase litigation risks and costs for the small businesses that provide this vital competition in the ink business.

We ask that the Court enter relief as prayed for by Independent Ink, Inc.

Respectfully submitted,

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